

**Chairman Ander Crenshaw**  
**Subcommittee on Financial Services and General Government**  
**House Committee on Appropriations**  
**IRS Oversight Hearing**  
**February 26, 2014**  
**Opening Statement As Prepared**

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Good morning. The hearing will come to order.

This is the first hearing of the year of our Subcommittee. Welcome to all of our returning Subcommittee Members; we're glad to have you back. And a warm welcome to our Subcommittee's newest Member, Mr. Amodei from Nevada. We are glad to have you and look forward to working with you.

Today, the Subcommittee will hear from two panels about the activities and operations of the Internal Revenue Service. Our witness for the first panel is IRS Commissioner John Koskinen. Welcome, Mr. Koskinen. We appreciate your return to Federal service and for taking the helm of the IRS during challenging times.

Our second panel witnesses are Treasury Inspector General for Tax Administration Russell George and the National Taxpayer Advocate Nina Olson. Mr. George is a regular witness for the Subcommittee and we appreciate his careful and constant oversight of the IRS. We have not heard in some time from Ms. Olson so we are especially eager to hear her concerns and recommendations for the IRS.

As a matter of housekeeping for Members, we will be following the 5 minute rule. I don't plan on cutting anyone off in mid-sentence, but if you could keep your questions and comments to about 5 minutes that would be appreciated.

Members will be recognized in order of seniority based on who is seated at the beginning of the hearing, going back and forth between parties. Late comers will be recognized in the order that they arrive, going back and forth between parties.

While I am sure that we will not always agree on the issues coming before the Committee, all Members and witnesses will be heard and respected. I want all members to have an opportunity to ask questions and get answers, so I will keep strict time to keep order and to keep the hearing moving and to get in as many rounds of questions as possible.

The fiscal year 2014 appropriations cycle tested the Committee's endurance. Only after the fiscal year started and after a government shutdown did the Budget Committees come to an agreement on total discretionary spending. Once the Ryan-Murray agreement was enacted, the Appropriations Committee rolled up its sleeves and quickly got a bipartisan Omnibus appropriations bill enacted, thanks to the leadership and dedication of Mr. Rogers, the Chairman of the Full Committee.

We are all hoping this year will go more smoothly because an agreement on total discretionary spending is already in place for 2015, allowing for regular order. And by that, I mean a process in which appropriations bills that reflect our funding priorities are marked-up, subject to amendment in Committee and on the House Floor, and then conferenced with the Senate.

While the Administration has yet to submit its 2015 budget request, there are numerous other topics that we can review at today's hearing, such as implementation of the Affordable Care Act, the tax exempt application process, how the IRS will use the \$11.3 billion in appropriations provided by Congress for the current fiscal year, and how the IRS has reformed its video production and conference spending. We have invited Commissioner Koskinen to return in April to discuss how much the IRS needs for fiscal year 2015 funding requirements; however today is all about what you have done with appropriated dollars.

With regards to the use of inappropriate criteria for selecting tax-exempt applications for extra scrutiny as documented by TIGTA, we want the Administration to come clean and explain to everyone how the inappropriate criteria came into use, how they were allowed to be used for years, and who is responsible for them. I know you want to turn the page and move past this, but this dark chapter in IRS's history will not go away until all the facts are laid to bare for this Committee, Congress, and the American public.

The proposed regulation on impermissible 501(c)(4) activities that was issued in November is counterproductive to your goal of restoring public trust in the IRS. This rule defines political activity so broadly that grassroots groups all across the country will likely be forced to shut down simply for engaging in the kind of non-partisan educational activities the 501(c)(4) designation was designed to support. In many cases, these are the same groups that were already victimized by the IRS's inappropriate targeting. Moreover, the timing of this rule appears calculated to take effect just in time for the mid-term elections, giving the strong appearance of political motivation. While you were not the Commissioner when this rule was proposed, I hope you take action to withdraw this proposed rule.

Regarding the Affordable Care Act, the IRS will begin enforcing the individual mandate by imposing a tax penalty and will be reconciling the premium tax credits in 2015. The tax penalty in 2015 is relatively small - \$95 - but grows quickly in the future depending on income and family size.

Many people do not realize this, but the tax credit is actually subject to two eligibility determinations. The first one occurred when you applied for the credit in 2013 based on your estimated 2014 income. The second one occurs in 2015 when the IRS reconciles your estimated and actual income. If you underestimated your household income, then you won't get the refund that you were expecting, but a tax liability instead. Collecting overpayments of the tax credit is going to be a real public relations nightmare for the IRS; I hope to hear from the Commissioner about how the IRS is preparing for it.

Lastly, I have heard from you and the press about how the IRS will only answer 61 percent of phone calls this year. You had said, it is intolerable and that the agency will be hard-pressed to answer telephone calls in a timely manner as a direct result of resource constraints.

Commissioner Koskinen, what is outrageous is that you have decided to award \$63 million in bonuses for work performed last year at a time when you are hard-pressed to answer telephone calls. This is outrageous; these bonuses are an insult to American taxpayers and are irresponsible and wasteful in such challenging fiscal times.

Higher funding doesn't guarantee better levels of service. The IRS's level of service is as much the result of its funding as how the IRS chooses to use those funds once appropriated. IRS personnel levels peaked in 2002; and after salaries expenses, the IRS's biggest expense in 2014 is rent. I would expect the IRS to be aggressively trying to reduce the amount of space that it rents as well as reducing mobile devices, computer workstations, service and maintenances contracts and so forth.

Which also brings up the \$1 billion a year that the IRS spends on routine IT refreshes and services. A lot of attention has been given to the IRS's Business Systems Modernization effort, which is appropriated at about \$300 million a year for the IRS's largest and most critical tax systems. But the IRS also spends \$1 billion a year on routine IT software, hardware, licenses and services. This is where savings can be found by having an accurate count and strictly necessary number of users, combining contracts to get volume discounts, and aggressively negotiating contracts.

The best level of service that the IRS provided was in 2004, answering 87 percent of phone calls with \$10.2 billion in funding. Today, the IRS has \$1 billion more in funding than it did in 2004. Of course many new tax laws have been enacted since 2004, but automation and worker productivity has also increased. For example, in 2013, the IRS's on-line refund status check experienced over 200 million hits. That's 186 million more hits than in 2004, or 186 million fewer calls into the IRS. So I challenge the premise that the IRS can only do more with more.

Every year the IRS claims it can generate four to five dollars in enforcement revenue for each dollar the government spends on the agency. And yet, when sequester cut \$600 million out of the IRS's budget last year, enforcement revenue increased by 6 percent and total revenue increased by 13 percent. In fact, the IRS's funding has been cut by nearly \$1 billion, or 8 percent, since 2010 and total revenue has increased by 28 percent. Clearly, the economy, changes in the tax law, and population have a greater effect on revenue than the size of the IRS's budget.

The Subcommittee has a limited amount of resources to fund 30 agencies and had to make difficult choices to fund some agencies better than others. We like to fund agencies that are prudent, or better yet parsimonious. We do not like to fund agencies that indulge in harassment and horseplay. IRS funding was at an all-time high in 2010 to support hiring more enforcement agents. The request assumed all these new agents would report to work on October 1, but the 2010 bill wasn't enacted until December. So the IRS had nearly twice as much money than it needed for the number of hires that it could actually bring on board in 2010. And instead of getting to work on identity theft, return preparer fraud, or on-line self-service options, the IRS threw itself an extravagant conference in California, complete with Star Trek videos, and the IRS began using inappropriate criteria in Ohio for selecting tax-exempt applications for extra scrutiny. The IRS has many legitimate requirements, but the IRS's stewardship of public funds

has been questionable of late. I want to help you turnaround the IRS and will be aggressively monitoring IRS spending to see whether the practice of unacceptable behavior actually changes.

The fiscal year 2014 Omnibus provides many reporting requirements for your agency on spending, bonuses, and training. We hope you plan to comply with these reporting requirements. In order to build back the trust of the Committee and the American people, we will want to know that you are managing your resources wisely and what the IRS is doing to become more efficient.

Again, welcome, Commissioner Koskinen; we look forward to your testimony and working with you to improve the IRS.

Finally, I want to take a minute to thank Mr. Serrano for working with me and all the Members of the Committee last year, my first year as the Chairman of the Subcommittee. While we don't always agree on issues, he was a partner to me last year as we went through the hearings, marking the bill up in Committee and conferencing with the Senate. I appreciate his efforts and insights on many issues. With that, I will yield to Mr. Serrano for any opening statements he would like to make.

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